THE DANA VIEWPOINT

July 20, 2017
Dow:21,612

Confused?

The Fed must be. The May jobs report was weaker than expected: 138,000 new private sector jobs created. Inflation and wage growth were also low, but the Fed raised short term interest rates for the third time since December. They cited signs of stronger economic growth. Since that report, the Fed has been walking back their comments. The Labor Department just released the private sector job report for June. The private sector created 222,000 new jobs in June. A good number, if only we can hold that trend going forward. But now the Fed’s two new favorite economic indicators - inflation and wage growth - are not following the script. If the economy is really growing, inflation and wage growth should be increasing, but they are not. Analyst interviews with human resource professionals indicate that there is an abundance of jobs available. The problem is that employers cannot find qualified workers to fill those positions. Automation has also cut into the availability of entry level jobs. Some of these problems can be resolved if Congress ever puts a new health care plan in place and passes a new tax reform plan. Both would lift a cloud of uncertainty for employers who could then pay up for marginally qualified workers and train them while keeping profit margins stable.

There is a bigger problem looming, one that most free market countries around the world are facing, but one that only gets talked about infrequently. That is the shift in population growth. A main cause of the decades long economic slump in Japan and other nations is that the fulcrum has been breached where there are now more people retiring than there are entering the work force. The U.S. is not there yet, but analysts who study this sort of thing say we will be there by 2020. Maybe this is why the IMF (International Monetary Fund) is projecting economic growth in the U.S. at 2.5% this year and 2.6% next year. They are saying we are at full employment. The administration is looking for 3.0% this year, and the Atlanta Fed is saying 3.5%. We would hope that we continue to always have enough creative and hardworking people in this county to keep the free market system going for another 241 years.

Has anyone heard from Greece lately? The European Union has kicked that can so far down the road that everyone seems to have forgotten about its debts. If memory serves, they have a big chunk of debt due this month. It’s unlikely Greece has done anything about this debt as the Greek government has been fighting against any austerity plans. As Greece is a small country, its financial impact on the EU is small. The psychological impact it might cause, especially if Greece were to withdraw from the EU, is much larger. However, offsetting good news is coming from Italy. The Italian financial situation was much bigger and much worse. They also have debt payments due this month. As the Italian economy is improving along with the rest of the EU, they have already started to pay down a big chunk of their debt and shore up some of their more troublesome loans. Furthermore, some banks are

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now able to make new loans and resume their growth. This renewed financial health should carry over to other troubled EU countries, and most notably Spain, Portugal and Ireland.

Poor Puerto Rico. They are bankrupt and have no one else to bail them out, not even the US. Being a territory of the US and not a state, we are not obligated to send money. They are doing the best thing though. They are selling off state- owned services to private enterprises. This will allow them to pay down debt and prevent them from incurring further debt from entitlement programs. Illinois is having serious financial problems and being a state, they will probably receive some kind of assistance. The powers that be have already convinced the three major bond rating agencies (Moody's, S&P and Fitch) not to classify Illinois debt as "junk." Like Greece, Illinois will somehow be able to kick this can down the road and stay afloat. Unfortunately, it's not just Illinois. Other states and cities have similar problems. Eight cities and towns, and over two dozen municipal entities have declared bankruptcy in the last decade. You don't have to look far to see how debt can destroy a country or state or city or family. Look to Brazil or Argentina on a regular basis, and now Puerto Rico and Venezuela.

In case you hadn't noticed, growth stocks and disruptive innovation are all the rage in the stock market. Growth stock indexes significantly outperformed traditional value stock indexes in all market cap ranges this quarter and have a healthy lead year-to-date. Technological advancement and innovative disruption are changing the ground rules and fortunes of many industries and companies. Cloud computing, E-commerce, Fracking, Electric & Autonomous Vehicles and Hotels & Housing are just a few of the areas seeing major disruption. Watch and embrace this change and know there are ways to profit without chasing the latest high-flying darling. There will be big winners and losers and avoiding the most over-valued growth story will be rewarded when value stocks rotate back into favor. The trend in stocks is still up, but patience will be required through coming market gyrations.

Random Thought for June 2017: "Truth is ever to be found in simplicity, and not in the multiplicity and confusion of things" - Isaac Newton

20700 SWENSON DRIVE • SUITE 400 • 53186 • P.O. BOX 1067 • BROOKFIELD, WI • 53008-1067 • 262.782.3631 • FAX 262-782-0581
365 ERICKSEN AVENUE.N.E. • SUITE 312 • SEATTLE, WA • 98110-1888 • 206.855.8781 • FAX 800.560.6227

E-Mail: dia@danainvestment.com
Web Site: www.danainvestment.com